Budgeting for Assessors

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January 2014

Overview

- Status of 2014 Budgets
- Review of 2012 pay 2013 Reassessment
- Brief Review of Reassessment Fund
  - Source of funding
  - Allowable Uses
  - Relationship to the general fund
- Changes for 2014
- Gross AV's to Net AV's

2014 Budget Status

- 91 counties with approved cyclical reassessment plans – 92 have been submitted.
- 6 counties certified net assessed values by the August 1 deadline.
- 49 counties have certified budget orders by December 31, 2013 – deadline is February 17, 2014.
- 91 counties are expected to receive the certified budget order by February 17th.

2012 Pay 2013 Reassessment

- Reassessment was effective for property taxes payable in 2013
  - Remember the previous reassessment?
    - Original certified budgets, rates, and tax levies were rescinded.
    - Some counties ordered to reassess – again.
    - Delayed property tax bills, collections, and distribution – sometimes for years.
    - Forced a restructuring of property tax system throughout the State
  - 2013 reassessment was completed on time
    - Change in values was minimal and no delays
    - Proof that trending works

Reassessment Funds

Review of Reassessment Funds

- I.C. 6-1.1-4-27.5 **Property reassessment fund; tax levies; petition to increase levy; appeal**

  Sec. 27.5. (a) The auditor of each county ***shall establish a property reassessment fund.*** The county treasurer shall deposit all collections resulting from the property taxes that the county levies for the county's property reassessment fund.
  (b) With respect to a reassessment of real property under a county's reassessment plan under section 4.2 of this chapter, the ***county council of each county shall, for property taxes due each year, levy against all the taxable property in the county an amount equal to the estimated costs of the reassessment under section 28.5 of this chapter for the group of parcels to be reassessed in that year.***

Reassessment Funds (Continued)

- I.C. 6-1.1-4-28.5
  Property reassessment funds; use of money; soil maps
  Sec. 28.5. (a) Money assigned to a property reassessment fund under section 27.5 of this chapter may be used ***only*** to pay the costs of:
  (1) the ***general reassessment of real property*** under section 4 of this chapter ***or reassessment of one (1) or more groups of parcels*** under a county's reassessment plan prepared under section 4.2 of this chapter, including the computerization of assessment records;
  (2) ***payments to assessing officials*** and hearing officers for county property tax assessment boards of appeals under IC 6-1.1-35.2;
  (3) the development or ***updating of detailed soil survey data*** by the United States Department of Agriculture or its successor agency;
  (4) the ***updating of plat books***;

Reassessment Funds (Continued)

- I.C. 6-1.1-4-28.5

  (5) ***payments for the salary of permanent staff or for the contractual services of temporary staff*** who are necessary to assist assessing officials;
  (6) making ***annual adjustments*** under section 4.5 of this chapter; and
  (7) the verification under 50 IAC 21-3-2 of ***sales disclosure forms*** forwarded to:
  (A) the county assessor; or (B) township assessors (if any); under IC 6-1.1-5.5-3.
  Money in a property tax reassessment fund may not be transferred or reassigned to any other fund and may not be used for any purposes other than those set forth in this section.
  (b) All counties shall use modern, detailed soil maps in the reassessment of agricultural land.
  (c) The county treasurer of each county shall, in accordance with IC 5-13-9, invest any money accumulated in the property reassessment fund. Any interest received from investment of the money shall be paid into the property reassessment fund.

Reassessment Funds (Continued)

- I.C. 6-1.1-4-28.5
  (d) An appropriation under this section must be approved by the fiscal body of the county after the review and recommendation of the county assessor. However, in a county with a township assessor in every township, the county assessor does not review an appropriation under this section, and only the fiscal body must approve an appropriation under this section.
  As added by P.L.198-2001, SEC.20. Amended by P.L.228-2005, SEC.10; P.L.88-2005, SEC.7; P.L.1-2006, SEC.131; P.L.154-2006, SEC.2; P.L.1-2007, SEC.39; P.L.219-2007, SEC.14; P.L.146-2008, SEC.79; P.L.112-2012, SEC.18.

Reassessment Funds (Continued)

- Recent changes to reassessment fund:
  - 2013 General Assembly approved HEA 1116.
    - DLGF no longer required to notify a county council of the amounts to levy from property tax for reassessment.
    - DLGF no longer has authority to increase or decrease a reassessment fund property tax levy
    - Old reassessment fund was closed and rolled into a new reassessment fund
      - (This is same procedure as previous reassessments.)

Summary of Reassessment Fund

- All counties are required to have a reassessment fund according to IC 6-1.1-4-27.5(a)
- A property tax levy is required for reassessment costs under IC 6-1.1-4-27.5(b)
- Statute does not provide a formula to determine the amount of levy nor does it include a minimum or maximum amount to levy for reassessment.
- DLGF believes the intent is to finance reassessment with a levy in the reassessment fund.
- However, control is with the county council.

Reassessment Funds & County Councils

- Councils may have reduced **levy** to reassessment fund – ***Why?***
  - Answer #1: They may have needed more levy in the general fund to finance county operations next year. Both the reassessment fund and county general fund are considered together for calculating the maximum levy.
    - Increases to property tax levies are not to exceed last years maximum amount plus a growth quotient.
    - Effect: If one fund increases more than the growth quotient, the other fund must decrease to remain within the maximum levy.

Reassessment Funds & County Councils

- Councils may have reduced **levy** to reassessment fund – ***Why?***
  - Answer #2: Council may believe there is sufficient cash balances in reassessment fund; or
    - Conflicting tax policy.
    - Continuing to increase balances was not necessary.
    - They could use the levy to provide other services.
    - They could provide property tax relief.
    - Reduce circuit breaker effects.
    - Offset other tax increases.
    - They can restore the reassessment levy at a future date.

Reassessment Funds & County Councils

- Councils may have reduced **appropriations** to reassessment fund – ***Why?***
  - (Possible) Answers:
    - Insufficient funding. Budget exceeded available funding.
    - They may believe there is sufficient budget in the reassessment fund.
    - Goal of council may be to control (reduce) spending
    - May believe the reassessment budget is excessive.
    - Disagreement over salary and benefit levels.
    - Insufficient information about the budget.

Possible Remedies

- When the levy is reduced:
  - Assessor may petition council to restore (increase) the reassessment levy.
  - Document the need for the increased funding.
  - Assessor may appeal to DLGF if council denies the petition.
  - DLGF will hear the appeal and determine if the additional levy is necessary.
  - Remember that the ***maximum levy cannot be exceeded***.

Possible Remedies

- When the **Budget** is reduced:
  - Assessor may seek an additional appropriation after January 1.
  - Additional appropriations require public notice and public hearing.
  - Additional appropriations ***must be approved by the fiscal body (county council*)**.
  - Requires proof of available funding.
  - Since reassessment fund is supported by property tax, an additional appropriation is also required to be approved by DLGF.

DLGF’s Role

- DLGF certifies all budgets, tax rates, and tax levies for all units in every county by fund.
  - Prior to certification, DLGF sends to fiscal officers a “1782 Notice” showing the actions taken by DLGF.
  - Notice shows each unit by fund, the auditor’s certified estimate of assessed value, the calculated property tax rate and levy based on all information available to the DLGF.
  - These amounts will not exceed the advertised or adopted amounts, whichever is less.
  - In some instances, amounts will revert to the previous years amounts.

DLGF's Role

- DLGF may reduce amounts adopted by fiscal bodies (county councils).
  - DLGF will recalculate all tax rates and tax levies based on the certified AV's provided by county auditor's.
  - Typically, certified AV's are higher than those used by the unit for their initial calculations (in the beginning DLGF suggests using low AV estimates).
  - If a reassessment levy is reduced, it's probably because a lower AV generated less levy than was adopted or the rate was adopted too low.

DLGF’s Role (Continued)

- Reasons DLGF may reduce a reassessment levy:
  - Exceeded amount advertised,
  - Exceeded amount adopted,
  - Assessed value decreased,
  - Rate was adopted too low,
  - Levy (combination of general and reassessment funds) exceeded the maximum levy allowed,
  - Budget not advertised properly,
  - Budget not adopted properly,
  - Council failed to make budget recommendation.

Changes for 2013 pay 2014

- DLGF will only hold budget hearings in counties that have a taxpayer requesting the hearing.
  - Previously DLGF would hold a hearing in every county.
- DLGF no longer required to notify county council of amount to levy in reassessment fund.
  - DLGF previously calculated the amount to levy for reassessment fund.
- **Protected taxes** – This new concept will affect the availability of cash for certain funds, including reassessment funds.

Changes for 2013 pay 2014

- **Protected taxes** – This new concept will affect the availability of cash for certain funds, including reassessment funds.
- Concept of protected taxes came after **circuit breaker credits** began causing shortfalls in debt service funds.
  - (Circuit breaker credits cap the property tax liability of property owners after taxes exceed a certain threshold.)

Changes for 2013 pay 2014

- **Protected Taxes** – Property taxes collected for funds that are exempt from circuit breaker credits **and** property taxes collected for debt service obligations.
  - Funds that receive protected (property) taxes are treated as if there were no circuit breakers credits
  - Revenue lost due to circuit breaker credits is allocated to all other property tax supported funds.
  - Protected taxes are thought to be an enhancement for credit rating purposes.

Protected Taxes

- Protected taxes (continued)
  - Circuit breaker credits are charged to funds receiving protected taxes only when no other property taxes remain.
  - Units are allowed to transfer funds to debt service funds from other sources to offset loss of revenue.
  - Protected taxes will add an additional level of complexity to process – allocation of credits.
  - Reassessment and general funds are not protected.
  - Discussion of protected taxes in upcoming general assembly is certain.

Protected Taxes

Example of how Circuit Breakers work:

	Cert. Levy	%	Circuit Breaker	Net Levy
County General	$10,000,000	50%	$2,500,000	$7,500,000
Reassessment	2,000,000	10%	500,000	1,500,000
Health Fund	1,000,000	5%	250,000	750,000
CCD	3,000,000	15%	750,000	2,250,000
Jail Bond	2,000,000	10%	500,000	1,500,000
Courthouse Bond	2,000,000	10%	500,000	1,500,000
Total	$20,000,000	100%	$5,000,000	$15,000,000
Circuit Breaker =	$5,000,000			

Protected Taxes

Example of how Circuit Breakers will work with protected taxes:

	Cert. Levy	%	New Circuit Breaker	Net Levy
County General	10,000,000	62.5%	3,125,000	$6,875,000
Reassessment	2,000,000	12.5%	625,000	1,375,000
Health Fund	1,000,000	6.25%	312,500	687,500
CCD	3,000,000	18.75%	937,500	2,062,500
Jail Bond	2,000,000	0%	0	2,000,000
Courthouse Bond	2,000,000	0%	0	2,000,000
Total	20,000,000	100.00%	$5,000,000	$15,000,000
Circuit Breaker =	$5,000,000			

Comparison

Certified levy, circuit breaker, vs. protected

	Cert. Levy	Levy After Circuit Breaker	Levy With Protected Taxes
County General	10,000,000	$7,500,000	$6,875,000
Reassessment	2,000,000	1,500,000	1,375,000
Health Fund	1,000,000	750,000	687,500
CCD	3,000,000	2,250,000	2,062,500
Jail Bond	2,000,000	1,500,000	2,000,000
Courthouse Bond	2,000,000	1,500,000	2,000,000
Total	20,000,000	$15,000,000	$15,000,000
Circuit Breaker =	$5,000,000		

Outlook

- Circuit breaker credits are a constitutional taxpayer protection.
- Protected Taxes are statutory and subject to change with legislation.
  - Protected taxes were originally scheduled to take effect in 2013 but postponed until 2014.

PART II

Gross AV’s to Net AV’s

Assessment to Budget Process

March 1 - Assessment Date

May 1 – Ratio Study Submitted

July 1- Assessor Rolls Gross AV to Auditor

Aug 1- Auditor Applies Deductions & Exemptions and Certifies CNAV:

Auditor’s Certificate

Nov 1 – Budgets Adopted Using CNAV to Set Tax Rates

Feb 15- DLGF Certifies Budgets and Rates. Auditor Prepares Abstract and Treasurer Prepares Tax Bills

May 10th & Nov 10th – Property Taxes Due, Paid and Distributed to Local Units

Auditors Role in Budget Process

- Timeline:
- March 1 is assessment and valuation date for all tangible property except annually assessed mobile homes.
- Deadline for establishing new taxing units and date annexations become effective.
- March 15 is deadline for auditors to prepare and deliver certified copy of the abstract of property, assessments, taxes, deductions, and exemptions for taxes payable in current year by tax district.
- April 25 is deadline for treasurers to mail property tax bills for taxes due on May 10.

Auditors Role in Budget Process

- Auditor's Certificate of Net Assessed Values: real and personal property assessments less deductions and exemptions for estimating taxes, tax levies, and tax rates to be charged.
  - Assessors roll Gross real and personal property AV's to auditor (IC 6-1.1-3-17(b); IC 6-1.1-5-14)
  - Auditor applies all applicable deductions and exemptions to arrive at Net AV's.
    - Net AV's are the tax base for local units of government
    - Tax Levy = (Net Assessed Value/100) X Tax Rate

Auditors Role in Budget Process

- IC 6-1.1-17-1
- On or before August 1 of each year the county auditor is to send to each unit in the county:
  - Information concerning the assessed value of property in the county for the next calendar year,
  - An estimate of taxes to be distributed during the last six months of the current year,
  - The current assessed value as shown on the abstract,
  - The average growth in assessed value for the unit over the past three years as adjusted by the procedures of the DLGF while adjusting for reassessment,
  - Any other information at the auditor’s disposal that might affect the assessed value in the budget adoption process.

Auditors Role in Budget Process

- Definitions:
  - **Deductions**: A reduction in the assessed value being taxed.
  - **Exemptions**: Exemptions excludes property from assessment.
  - **Credits**: Credits reduce the amount of the property tax bill.
  - **Abatements**: Abatements are a cancelation of a tax liability.
  - **Tax Increment Financing**: A process for capturing the taxes paid by property owners.

Auditors Role in Budget Process

- Deductions:
  - A deduction reduces the assessed value being taxed.
  - Deductions are specifically described and allowed in the Indiana Code.
  - Most deductions have maximum amounts or percentage limits.
  - Most deductions have eligibility requirements.
  - Most deductions can be combined with other deductions.

Common Deductions

- **Homestead Standard Deduction**: Residential real property an individual uses as principal residence, including a mobile or manufactured home not assessed as real property.
- Consists of dwelling and attached structures and real estate up to one acre surrounding structure.
- One standard deduction per married couple.
- Deduction is limited to the lesser of 60% of the assessed value of the eligible property or $45,000.

Common Deductions

- **Supplemental Homestead Deduction**: Individuals entitled to a homestead standard deduction are also entitled to a receive a supplemental homestead deduction from the assessed value after the standard deduction is applied but before any other deductions, exemptions or credits are applied.
- Deduction is equal to the sum of 35% of the homestead assessed value after the standard deduction is applied that is less than $600,000 or 25% of the homestead assessed value after the standard deduction has been applied that is more than $600,000.
- Deduction cannot exceed ½ of AV for PP mobile or manufactured homes.

Common Deductions

- **Mortgage Deduction**: Indiana resident must be buying property with a mortgage or under contract. The mortgage, contract, or memorandum (including a home equity line of credit) must be recorded in the Recorder’s Office.
  - Deduction is limited to the lesser of:
    1. $3,000,
    2. Balance of mortgage or contract indebtedness (including home equity line of credit) or
    3. One-half of the total assessed value of the property.

Common Deductions

- **Over 65**: Applicant must own or be buying property under mortgage or contract and applicant must be at least 65 on or before December 31 of the year preceding the year in which the deduction is claimed.
- Qualifications:
  - Applicant and any joint tenants must reside in the property
  - Combined adjusted gross income must be $25,000 or less
  - Assessed value of property must not exceed $182,430
- Deduction is limited to lesser of one-half of assessed value or $12,480.
- May be combined only with Mortgage and Homestead deductions.

Common Deductions

- Other Common Deductions:
  - **Blind or Disabled**: Maximum deduction is $12,480 and taxable gross income does not exceed $17,000.
    - May be combined with all other deductions except Over 65.
  - **Totally Disabled Veteran or Veteran at Least 62 with Disability of 10% or More**:
    - Maximum deduction $12,480.
    - Applicant served at least 90 days in U.S. military and received honorable discharge.
    - Assessed value does not exceed $143,160.
    - May be combined with all other deductions except over 65.

Common Deductions

- Other Common Deductions:
  - **Veteran with Service Connected Disability** – Applicant received an honorable discharge after serving in U.S. military or naval forces during any of its wars; Applicant has a service connected disability of at least 10%.
    - Deduction limited to $24,960
    - Deduction may be combined with all other deductions except Over 65 and Surviving Spouse of WW1 Veteran Deduction.

Property Tax Credits

- Credits reduce the amount of the property tax bill:
  - **Circuit Breaker Credits:** a taxpayer protection that limits the amount of tax liability to a percent of the value of the type of property.
  - **Homestead Credits:** Some counties have adopted local homestead credits where a local option income tax pays a portion of the tax bill.
  - **Over 65 Credit:** IC 6-1.1-20.6-8.5
  - **Income Based Credit:** IC 6-1.1-20.6-8.5

Property Tax Credits

- **Over 65 Circuit Breaker** – Prevents property tax liability on qualified homestead property from increasing more than 2% over the previous years tax liability.
  - Applicant must qualify for homestead standard deduction in preceding year and current year.
  - Applicant is or will be at least 65 on or before Dec. 31 of calendar year immediately preceding current calendar year.
  - Gross income does not exceed $30,000 for single or $40,000 for joint.
  - Gross AV of homestead less than $160,000.

Exemptions

- Legal Basis for Exemptions:
  - Article 10, Section 1 of the Indiana Constitution permits the Legislature to exempt certain classes of property from property taxation.
  - IC 6-1.1-10 contains most of the exemptions available, but exemptions may be found throughout the Code.
  - Exemption procedures are found in IC 6-1.1-11. The procedure include application requirements, deadlines, and other conditions.

Exemptions

- Legal Basis continued:
  - An exemption is a privilege, not a right.
  - An exemption is a privilege which may be waived by a person who owns tangible property that qualify for the exemption. (IC 6-1.1-11-1)
  - Burden is on the applicant to show that the predominant part of the property claimed to be exempt is substantially related to the exercise or performance of the applicant’s exempt purpose (IC 6-1.1-11-3(d)).

Exemptions

- Distinctions:
  - **Exemption** – property is not taxable
    - Such as churches and charitable organizations.
  - **Deduction** – Reduces the taxable AV of a property by a fixed dollar amount.
    - Homestead, mortgage, Over 65, and disable veteran are examples.
  - **Credit** – Reduces the net tax bill by a designated percentage or prevents a tax bill from exceeding a certain percentage.
    - Circuit Breakers, Over 65, and LOIT Homestead.

Applying for an Exemption:

- Application is filed with the county assessor on or before May 15 of the assessment year.
  - May 15, 2013 for 2013 pay 2014 property taxes.
- Exemption application is not required if the exempt property is owned by the United States, the state, an agency of the state, or a political subdivision (as defined by IC 36-1-2-13). This exception applies only when the property is used, and in the case real property occupied, by the owner.

Applying for an Exemption

IC 6-1.1-11-4(d):

The application must be re-filed every even year unless:

(1) the exempt property is:

(A) tangible property used for religious purposes described in IC 6-1.1-10-21;

(B) tangible property owned by a church or religious society used for educational purposes described in IC 6-1.1-10-16;

(C) other tangible property owned, occupied, and used by a person for educational, literary, scientific, religious, or charitable purposes described in IC 6-1.1-10-16; or

(D) other tangible property owned by a fraternity or sorority (as defined in IC 6-1.1-10-24).

(2) the exemption application referred to in section 3 or 3.5 of this chapter was filed properly at least once for a religious use under IC 6-1.1-10-21, an educational, literary, scientific, religious, or charitable use under IC 6-1.1-10-16, or use by a fraternity or sorority under IC 6-1.1-10-24; and

(3) the property continues to meet the requirements for an exemption under IC 6-1.1-10-16, IC 6-1.1-10-21, or IC 6-1.1-10-24.

Abatements

- Abatements are a suspension or forgiveness of future tax liabilities. Liability for taxes resumes at the expiration of the term of the abatement.
  - Abatements are used to induce economic development.
  - Commonly used to attract or stimulate new commercial or industrial development.

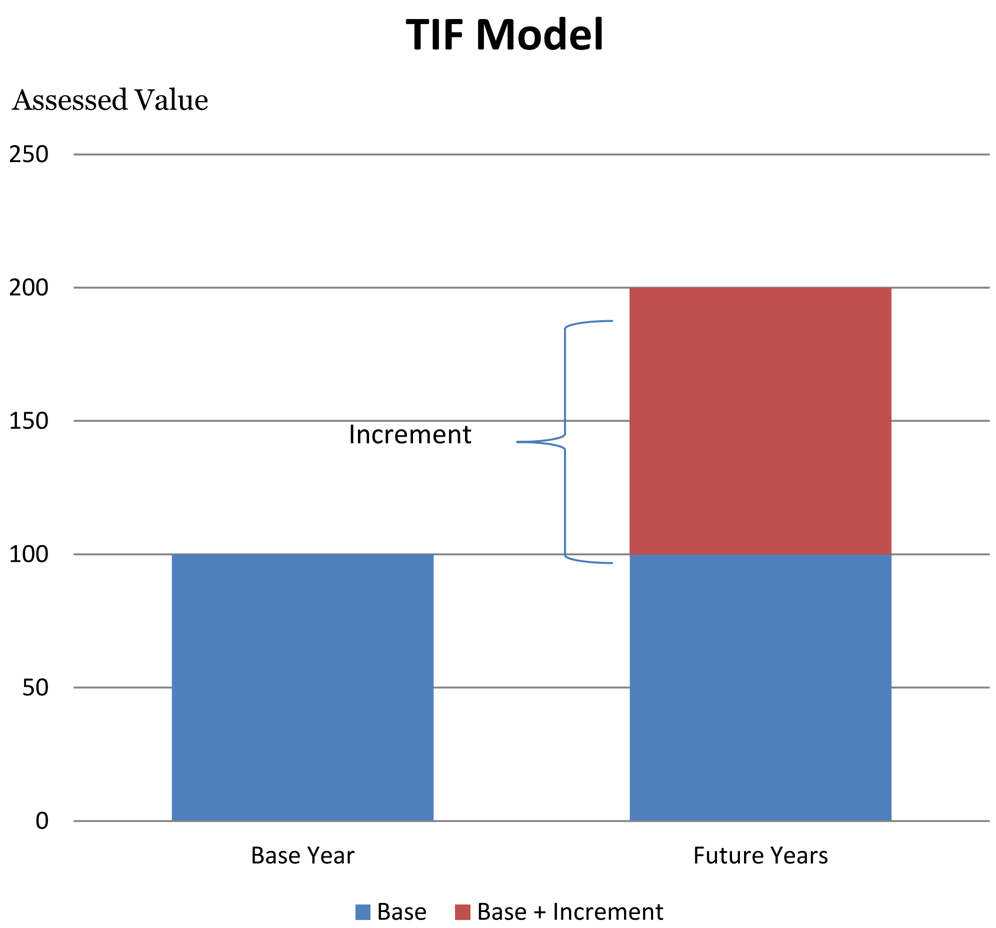
Tax Increment Financing

- TIF is a tool used to capture increased taxes from future developments to help pay for the development.
  - Theory is that the taxes would not have been there if not for new development and the new development would be there if not for the TIF.
  - Typically, TIF is used to finance the infrastructure needed to support the development.
    - New road construction
    - Sewer construction
    - Extending water lines, etc.

Tax Increment Financing

- TIF revenues are normally used for debt service payments or lease payments.
  - Some units use TIF as a “pay as you go” redevelopment financing mechanism.
- Property owners in a TIF district are still protected by circuit breaker limits (to tax liability).
- Tax levies paid to a TIF district are included in the tax revenues reported by county auditor’s but are then subtracted so the “net” or “base” assessed value is not affected. (Since the revenue is not distributed to the civil taxing units, the taxable property value is not shown as tax base for the unit when determining the tax rates or tax levies).

Tax Increment Financing



Abstract of Taxes Charged

- Abstract (IC 6-1.1-22-5):

  "…***the county auditor shall prepare*** and deliver to the auditor of state and the county treasurer a certified copy of an ***abstract*** of the ***property, assessments, taxes, deductions, and exemptions for taxes payable in that year in each taxing district of the county***. The county auditor shall prepare the abstract in such a manner that the information concerning ***property tax deductions reflects the total amount of each type of deduction***. The abstract shall also contain a ***statement of the taxes and penalties unpaid in each taxing unit at the time of the last settlement*** between the county auditor and county treasurer and the status of these delinquencies."

Abstract

- Auditor's Certificate takes gross assessed values and deducts deductions, exemptions, and TIF to estimate the base net assessed value.
- The abstract takes the gross amount of taxes to be billed and adjusts for tax credits, exemptions, TIF, abatements, and other adjustments to determine the amount of taxes to be billed.
  - Auditor's Abstract Manual: http://www.in.gov/auditor/files/2013_Spring_Abstract_Manual.pdf

Questions

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